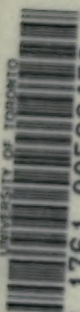


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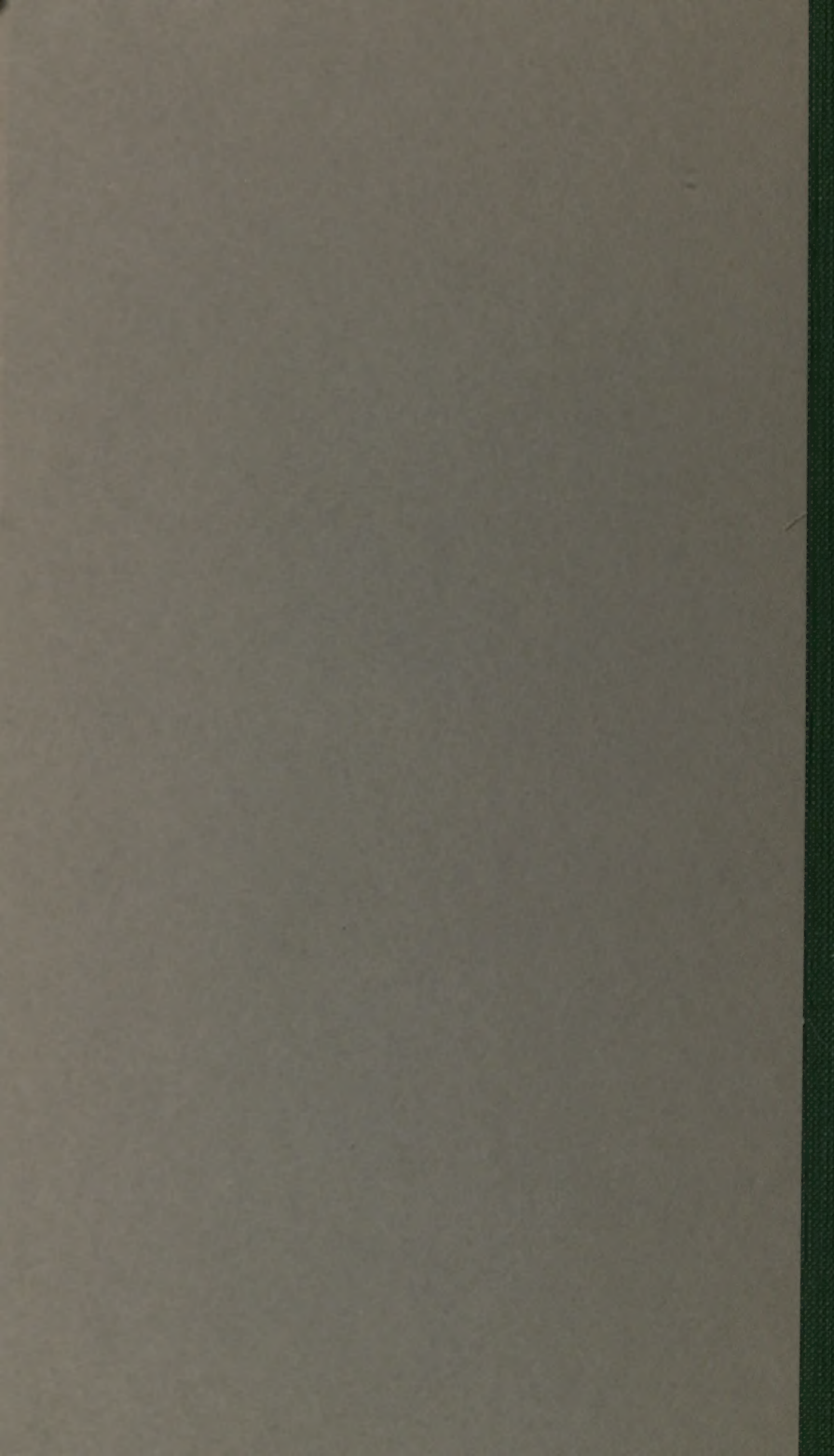


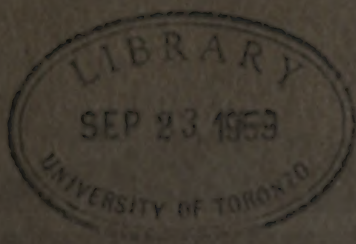
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Todd, Thomas
The foundations
of economics

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The Foundations of Economics

— BY —

THOMAS TODD

GRESHAM, N.Z.
Printed at the Herald Office
September, 1918

P. W. Bladen.

Ball. Coll.

THE FOUNDATIONS OF ECONOMICS

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PREFACE.

In the year 1885, under the influence of Carlyle and Ruskin, I set myself to investigate the "Condition-of-England-Question," and with what I now see to have been singular good fortune I began on the problem of Over-Production.

Is Over-Production the cause of Hard Times? I have come to a solution of that, which satisfies myself, and while doing so I have had to recast most of the economic formulae. Some of them I have attacked as untrue. Others I have replaced by new definitions, which seem to me to go a little deeper into the truth.

How will my work appear to others? I am haunted by the memory of cranks I have known, who kept writing letters to the papers till the papers refused to publish the silly stuff any longer. For me, a sheepfarmer, buried in the backblocks for 30 years, to publish conclusions so revolutionary seems far beyond rashness, and yet I think I'll do it.

If they are true, I shall have done a little to help the world. If they are simply silly, the results to myself will be disastrous, but there are many occasions on which the consequences to oneself should be faced and ignored, and I think this is one of them.

"He either fears his fate too much,
Or his deserts are small,
Who dare not put it to the touch,
To win, or lose it all."

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CHAPTER I.

OLD LAWS AND NEW TENDENCIES.

Origin and
meaning of
Economics.

Economy from its roots means the art and science of household management. From that came Political Economy, the art and science which deal with the management of the affairs of the nation. Nowadays we call it Economics, but the older title, by its associations, explained itself, as the name of Smith does. I don't like Smythe, nor Economics.

Economics treats of men and materials, of human wants and the means of satisfying them, and as these latter are most easily compared in terms of money, it treats at great length of prices, gold and currency. This has led the public to look on Economics as a greedy materialistic study. The economists of the nineteenth century were largely to blame for this, for they ignored the human wants and thought mainly of the material things necessary to satisfy these wants. The result was they came to treat Economics as an exact science, and they expressed their conclusions as "Laws" and in the mathematical form of equations.

Mental and
spiritual causes
underlie "Hard
Facts."

Economics now treats of human wants, not bread and butter only, but fresh air and sunshine and beautiful homes set in roses. It does not now lay down "laws," but speaks of "tendencies." The old Political Economy looked for "hard facts" to base its "laws" on. The new will look for the mental factors which underlie and which cause these "hard facts." Walker says: "Political Economy has to do with no other subject, whatever,

OLD LAWS AND NEW TENDENCIES.

than wealth." Well, then, think of New Zealand in the hands of the Maoris, and look at it now. What caused the difference, the mental and spiritual differences between the Maoris and the present population. Look forward to the civilisation of the future, and what will cause the change—differences in the mental and spiritual factors? These are the causes of even material wealth, and these are the true Foundations of Economics. On this side, then, Economics is a mental science. By following this we may hope to learn how to make the most of our men; how to have beautiful cities full of strong and happy citizens, instead of slums breeding wastrels.

Human Wants.—Well, there is one thing we all want; we want to make sure that no one need starve in the midst of plenty. The new Economics will give us hope and guidance there, point to abundance for all, and teach us how to get it. The first thing, then, is to prove that there IS abundance for all. The old Economics hemmed us in with unavoidable "laws," which they said explained the misery of our people. There was the "Law of Rent," based on the "margin of cultivation," which condemned us to the same hardships as if we were all living on the poorest land in cultivation; the Malthusian Theory of Population, which explained that all our struggles were in vain, for any alleviation of our conditions would at once lead to such an increase of our population as would make us worse off than ever; and finally there was the "Law of Supply and Demand," which was always appealed to in any difficulty, and as it meant nothing, it was invaluable as a cloak for ignorance and a handy means of stopping the mouth of inconvenient enquiry. This War has tested all our theories. So many things have been done that before it had been declared to be impossible, and it has cut deep down into facts, exposing fresh strata and their relation to one another. One thing it has surely done is to prove that it was not super-abundance of population that caused the submerged tenth to be short of food and clothes. If, before the War, there were more mouths than food, then

The Malthusian Theory untrue.

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the taking away of so many men from the ranks of the producers and setting them to the worst form of destruction would certainly have aggravated the previous shortage. Instead of that, the War has found work for all, and the food was there in abundance, till the submarines destroyed so much shipping as to make it difficult to import the usual quantities. Up to the present (July, 1918) Britain has put about seven million men under arms, and, in addition, there must be many more millions engaged in "War work." The proportion of the male population that is left to supply the ordinary needs of the country cannot be very great, and yet, until the shortage of shipping became serious, the lower part of our population was better off than it had ever been. If we could do that with such a large proportion of our men absent from production, what *could* we do if we had every man at work? Food and comfort for all seem certainties. Garden-cities everywhere, fully of happy homes, seem to require no more work and skill and courage than we have been manifesting during the War. If we could work together after the War as we have done during it, all these things would be possible; but if we go back to our old Individualism, one thing very likely to happen is that the enormously increased Efficiency of Production will cause a glut of some common article. Then comes Depression of Trade, and then Financial Crisis and Panic.

There is really
a surplus of
labour.

X

For a long time now the Malthusian Theory has been an INVERSION of the facts. It was not because there was too little food to go round that the poor went short, but because the Efficiency of Production had increased so much that half the hands were not needed. Machinery had taken the place of men. As long as all the men were needed in production, every man who could work could get a share of the comfort produced, but now half of them can be dispensed with, without reducing the total product. We have had plenty of comfort produced, but not work enough for all; consequently there was a constant struggle among the workers to obtain that work, and so to acquire a share of the comfort. Plenty of food and not enough work

OLD LAWS AND NEW TENDENCIES.

to do seems an enviable condition of affairs, and so it might be, but we have turned it into a curse. Instead of utilising our surplus labor to dig canals, build harbors, and garden-cities, make roads and plant trees, harness water-power and drain swamps, we have left it to squabble and starve till it is a danger to the community. Not so very long ago smallpox, cholera, and the plague were looked on as "mysterious dispensations of Divine Providence," and any attempt to prevent these diseases was treated as being almost impious. In the same way the dogmas taught by economists have closed our eyes to the truth and stifled enquiry. The Malthusian Theory, for example, has blocked progress for over a hundred years. Now, I maintain that we can produce abundance of food for all our people, and that we have such abundance of surplus labor as could, wisely directed, in a few years' time, give to all classes all the comforts and many of the luxuries of civilisation. All that blocks the way is our ignorance and selfishness. I am now attempting to clear away that ignorance. The selfishness will be a bigger obstacle, but not so big as it looks. Consider the difficulties that have been in the way of unselfishness. Almost all the rewards the community had to bestow have been given to the shrewd, capable, greedy business man. When a man is perfectly wise he does his duty, because nothing else appeals to him; but in our present society the example of such a man is lost. The great successes that fill the newspapers fall to a different type of man, and their example corrupts the next generation, instead of raising it. If the public honors were conferred on the best of our men, and greed and shady practice sternly repressed, we should find truth and honesty and unselfish public service rise at once to a bounteous flood. Our present system does a very great deal to reward baseness and to ignore unselfish work for duty's sake, and yet it has not managed to root out the better qualities. This War has shown us, much to our surprise, that we were surrounded by heroes who would have died unknown in other circumstances. If we would only give virtue a chance we

Human Nature
magnificent.

Only give it
a chance.

FOUNDATIONS OF ECONOMICS.

should find it equally common in civil life. Hitherto it has not had a chance. It has been ignored and starved, and still it has not died. What is it capable of if given a suitable environment?

ANALYSIS AND DEFINITIONS.

I shall now proceed to attack the ignorance that stands in our way.

According to the Economists Rent depends on the "margin of cultivation." There is some land so poor that it pays no rent. Anyone using land of better quality has to pay for the difference. He obtains possession of an instrument of production of superior efficiency and has to pay for that advantage. No one attempts to point out the land that pays no rent, and when cornered they refer you to the fact that each application of labor and capital to the land yields less return than its predecessor, and they speak of the "marginal application" of labor, etc., to all land, instead of the hypothetical piece of land "on the margin of cultivation." Now would the existence or non-existence of this land "on the margin of cultivation" have any effect on Rent? If all the land of a country were uniformly rich would it alter Rent? Not the slightest. The real foundation of Rent is, —what the workers have come to regard as a fair return to them. Anything the land produces more than that the landlords can take as Rent. That is the true base of Rent. It has been spoken of as the Workers' "Standard of Living," but I shall call it the Workers' Demand for Reward, because the Demands of all classes are in perpetual conflict with one another, and the phrase Demand for Reward harmonises better with the idea of this Struggle for a Living than does the Standard of Comfort.

Rent.

X

X
The true "margin of cultivation."

Is the Demand for Reward.

Long-period Rent then depends on the Demand for Reward. If the workers get less than what they have been accustomed to —what they have learned to look on as a fair thing,—they withdraw from production in many ways. The farmers may throw up their farms, try dealing, get a job in town, or emigrate. The labourers may drift to the towns, to the Colonies, or to the poorhouse. But both farmers and laborers have one last resource, if their conditions are sufficiently miserable there need be no next generation. Long before that point is reached, however, the number of children

FOUNDATIONS OF ECONOMICS.

"bred to the farming" is decreasing. Farmers and laborers alike, when times are hard, they cannot afford to marry, and as the boys grow up they bitterly advise them, "Anything rather than farming." This is the true "margin of cultivation." Below a certain point the workers refuse to submit. On an English estate you can get higher rents by bringing in Scottish farmers, and it would be possible to raise the rents in Scotland if you could bring in Chinamen and displace the Scots. The "margin of cultivation" is not on the land, but in the hearts of the people. It may seem a small difference, but in the first place it is true, the habits of the people *do* decide what land shall be cultivated and what is too poor to bother with, and in the second place it has important results, as we shall see in the next stage.

The Struggle for a Living reduces the total produced.

Long-period Interest, Profits and Wages may in the same way be shown to depend on the Demands for Reward of all classes. Having come to that point we at once realise that these four Demands must be engaged in a constant struggle and that whatever one gets will be at the expense of the others. This I have called the Struggle for a Living. In this Struggle for a Living the Four Factors of Production fight for their proportion of the total product, and it is this perpetual struggle which causes the total to be so low. If we could mitigate the struggle, the total to be divided would be so much greater that each of the Four Factors might get a much larger dividend than it does now, but for that a general spirit of unselfishness is necessary, and the Struggle for a Living does not encourage that.

Profits alone affect the amount produced.

My conclusion then is that Long-period Rent, Interest, Profits, and Wages depend on the Demands for Reward of all classes, the Bounty of Nature, and the Efficiency of Production. There is another point seldom noticed, but most important, that Profits alone affect the *amount* of the Product. If Profits gain at the expense of any other of the Four Factors, business expands, the employers extend their operations, and in

ANALYSIS AND DEFINITIONS.

competing with one another they are bound to share their gains with all the other Factors, but if Profits fall, no matter which Factor seems to be gaining, they will all lose, for production will be checked and there will be less produced, and consequently less to be divided. Profits hold the throttle of our present system. When any of the other Factors squeezes Profits, the throttle is closed, and there is scarcity for all. When Profits are high, the total to be divided increases, and there is abundance for all. Profits directly control the total produced. The other three Factors only affect this through Profits.

This is one of the sources of that Deadlock that so often paralyses Production. When the Struggle for a Living becomes acute, the wheels stop and nothing is produced, consequently no matter what increase in its proportion any Factor may have gained there is nothing to divide, and all are losers.

Hitherto I have been referring to Rent as one of the Four Factors of Production. It would be as well to stop and prove that this is correct. Ever since the days of Ricardo it has been an accepted doctrine that Rent does not enter into Cost of Production. One man has a poor farm and pays a low rent. Another with rich land pays a high rent. The difference in rent is counterbalanced by the returns from the land. A shopkeeper with a shop in a side street pays less rent than one in a fashionable shopping quarter, but here again the difference in rent is counterbalanced by the difference in the opportunities, and in comparing those paying high rents with those in the cheaper situations, the rents do not affect their *relative* chances of making money. (My own impression is that the man of the highest ability stands the best chance where the rents are highest, though a poor farmer will lose money quicker on a good farm than on a bad one).

Rent is one
of the Factors
of Production.

I admit that in comparing one rentpayer with another, the rents do not affect their chances of success *relatively to one another*, but

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that is quite a different thing from saying that the community as a whole is not affected by Rent. Where all are equally crippled no one is any worse off than his neighbors, but it is a long step from that to the next one, that because all are equally crippled none of us is the worse for it, and that because all are handicapped by Rent to the same level therefore this handicap does not affect the community. On the contrary the level at which Rent stands is a most vital element in Cost of Production. A general rise in rents lowers the conditions of living of all the rest of the community, and what adds to their misery is the sight of the superabundance of the landlords. A general fall in rents lightens the burdens of everyone, and spreads ease and comfort everywhere. Economic Rent then is a tax on the community as a whole, though it does not affect the *relative* position of different producers within that community. It does not affect the cost of any one article as compared with that of any other made at the same time and place, but in considering Cost of Production the general level of Rent is a most important factor, and as landlords, like all the rest of us, are constantly trying to obtain a larger share of the total product, the level of Rent is just as important to the employer as the level of Wages. If Rent goes up it affects his Cost of Production in exactly the same way as if Wages or Interest had risen. While the level of Rent is steady it does not affect the profits of individuals as compared with one another, but Rents cannot rise without reducing the share of the other Factors, and a fall in Rents leaves more for the rest, besides which a fall in Rents generally means a rise in Profits, and that is a great stimulus to Production. It seems to me that the distinction I have drawn between Rent, at one time and place, and differences of Rent, between Rent fixed and Rent moving, is similar to that between hydrostatics and hydraulics. It is true that water will *stand* at the same level at the two ends of a pipe, but that fact is of little importance when once the water begins to flow through the pipe. As soon as it begins to move it

ANALYSIS AND DEFINITIONS.

obey different laws. Ricardo's Law of Rent is partly true until the Rent begins to move, but as soon as any differences of Rent appear his law fails to apply. The parallel difference between hydrostatics and hydraulics rather encourages me in maintaining that here we have Rent Static and Rent Dynamic.

Rent Static.
Rent Dynamic

I have proved that Long-period Rent, Interest, Profits, and Wages depend on the Demands for Reward of all classes.

Short-period Rents, Interest, Profits, and Wages, depend on Supply and Demand. This is one of these phrases that abound in the half-light of the beginnings of science, explanations which do not explain, and which only conceal our ignorance, and burke enquiry. Similar terms abound in the early stages of all studies, for instance, combustion was caused by phlogiston, and a pump sucked water because "Nature abhors a vacuum." When we say that Short-period Prices (to take the most typical example) are fixed by Supply and Demand, we really mean that Prices fix themselves somehow, and that the causes operating are so many that it is almost impossible to understand the result; but we cloak our ignorance by burying it in the empty phrase, and then by shutting our eyes we persuade ourselves that we have explained things.

Supply and
Demand

Let us try to see what lies below Supply and Demand. Each has two sides, mental and material. Supply covers the stocks of all kinds present and prospective, and also what "the market" thinks about these stocks. Demand also has two sides, the actual commodities needed and our opinions as to what will be required, and both Supply and Demand are constantly trying to forecast the future of the commodities concerned, and to guess the feelings and ideas of their neighbours and their competitors as to the probable course of the market. On every Monday morning producers, merchants, and consumers are all busy trying to find out how much will be needed, how much will be ready and

FOUNDATIONS OF ECONOMICS.

what everybody else thinks will be the price of it. In the long run the quantity required and the effort necessary to produce it, DO govern prices, but for this morning's price what "the market" thinks is *far* more important. "The market" may be completely wrong, it often is, but that will not prevent it from ruling to-day's prices. We all know what is meant by the "credit" of a merchant. His neighbours are always studying him. They appraise his assets, his ability, his habits, and his character, and the market value of all these is summed up in his "credit." The "Credit of the Market" (say for Cotton) contains the same ideas, all that we can find out about the quantities needed, the quantities likely to come forward, and the *opinions* of both producers and consumers. The advantage of the term is that it lays emphasis on the mental side of the question. When you speak of Supply and Demand you are pointing to the materials. The Credit of the Market asks you to look at the *opinions* of the merchants, what they think of the chances.

Rest on the
Credit of the
Market.

Now for Short-period prices what the merchants *think* is really the vital factor, so I say that—

SHORT PERIOD PRICES DEPEND ON THE CREDIT OF THE MARKET.

This does not cut out the idea of quantities of things, for the merchants' opinions rest on these, but when the merchants' opinions are wrong to-day's prices follow these mistaken opinions. The difference between these two phrases, Supply and Demand and the Credit of the Market, is not a trivial one. My phrase will lead to much more attention being given to the influence of mental causes which are the real causes of the differences between different societies. Compare ancient civilisations such as that of the Egyptians or the Greeks with our own and what caused the difference? And in looking forward to the civilisation of the future what stands in our way to-day? The

ANALYSIS AND DEFINITIONS.

obstacles are mental and spiritual. The Economics that looks to these is dealing with fundamentals and may well live when the older Political Economy is "dismissed to Saturn."

Mental and
spiritual causes
at the root of
everything.

FOUNDATIONS OF ECONOMICS.

THE STRUGGLE FOR A LIVING. Chapter III.

In my last chapter I tried to show that the foundations of Economics are not material but mental. Beneath these again lie spiritual causes, but we shall come to them by and bye. We are now beginning to rise out of the haze. Let us look back and see how far we have come.

For Short-periods, Rent, Interest, Profits, and Wages depend on the Credit of the Market.

For Long-periods, Rent, Interest, Profits, and Wages depend on the Bounty of Nature, the Efficiency of Production, and the Demands for Reward of all the Four Factors of Production. Each of these Factors is continually trying to increase its share regardless of the others. If Profits succeeds in this, Production is increased, but if any of the other three Factors gains at the expense of Profits, Production is checked and there is less to divide. It would seem then, that a time of high Profits would be a period of prosperity, when there would be abundance for all, and so it often is, but there are many things that prevent this from lasting long. We shall come to them before long. In the meantime we see that Rent, Interest and Wages are engaged in a continual struggle with one another and with Profits, and that this struggle prevents Production from *ever* doing the utmost it is capable of, while it occasionally results in a complete deadlock, in which hardly anything is produced. Profits hold the throttle. Anything that lessens Profits at once checks Production and reduces the total to be divided. This is one of the principal causes of the inefficiency of our present civilisation. The weight is carried on the throttle. Is there any way of preventing this? There is none that does not involve the complete remodelling of society. Many things might be done to *lessen* the Struggle for a Living, but the Struggle itself seems a necessary concomitant of Individualism, and I see no way of completely preventing it while

Profits hold
the throttle.

THE STRUGGLE FOR A LIVING.

we retain our present system. In the case of great monopolies we are beginning to feel that private control is opposed to the interests of the community, but I believe we shall find that it is just as harmful in the case of the small business as in that of the giant "combines." At present Production HAPPENS. It is not Planned for the public interest, but is stimulated or depressed by the private interests of the employers. The waste of Boom Times and the want of Bad Times are equally inevitable while we leave Business to grow, without any attempt to guide and control it for the public benefit. The present lack of plan is obviously a makeshift, temporary arrangement. We leave Production in the hands of the employers, whose interests are often opposed to Production, and whose powers are frequently throttled by the Struggle between themselves and the other Factors of Production. The workmen are beginning to waken up to the public nature of some of the functions of the employer. They have Want on the one side and the employers on the other, and they say why should not we have a say in the management or else let the State provide employment where we could feel we were working for the community and not for the profit of an employer?*

Production
just happens.

Civilisation has fumbled and groped its way into its present position. The only thing that can be said for it is that it still works, though with increasing difficulty, but that friction is likely to increase. The workers living unhealthy lives in the midst of our great cities are not satisfied, and it would be a pity if they were. We MUST improve their position for the city life is destroying them. It may be that public control would introduce still worse evils. If so, then all we can do is to keep on trying in a small way, learning from our failures and gradually training ourselves for further advances.

Organization
must come.

*Note.—A lot of this feeling is due to a mistaken view of Profits. We shall examine Profits in another chapter.

FOUNDATIONS OF ECONOMICS.

BOOM TIMES AND BAD TIMES. Chapter IV.

The Market
rising.

We have now got to a point from which we can look out over the lower hill-tops at the great question of Over-production. What causes that periodic pendulum-swing in Production which has been such a feature of our civilisation for at least the last hundred years? Everyone knows what Hard Times are; no one, at the best of times, is ever quite free from their shadow. In Good Times every man is busy; there is work for all at good wages. When "the Market is Rising," Profits are increased in two ways. The total produced increases at once, and also Profits get a larger share of the total. Every employer rushes in to catch the rising tide of prosperity, and that swells the rush of business. Everything sold to-day was made some time ago, when cost of production was lower, and therefore Profits are high, and this encourages everyone to extend his business. All these things react on and intensify one another till the Boom rises to a crest like a breaking surf. For a while it has seemed as if "Any Fool could Make Money," and the most desperate plungers have succeeded far better than sound, cautious business men of long experience. This can only continue as long as prices *keep* rising. The folly and waste of Boom Times tend to reduce the Efficiency of Production, there are strikes for still higher wages, and Rents, which have been gradually rising, begin to overtake Profits. The older men have shortened sail, but some of the "Fools" who have been succeeding so well "rush in" a little too far and get caught. There is "An Easier Tone in Business," followed by "Failures," "Reductions of Credit," and "Depression." Then comes Panic and Want. This is what you expect if Prices rest on the Credit of the Market. A rise in prices improves credit, and that raises prices again. A rise in prices increases the employers' expectation of profits, and immediately the throttle is opened and production booms. The total produced being greater, the dividend of each Factor is greater, and for a little

and falling

BOOM TIMES AND BAD TIMES.

the Struggle eases off slightly. This also helps to add to the total product. Every effect becomes a cause, and still further raises prices. The abundance of Boom Times is largely due to increase in the total product and to decrease in the Struggle usual in the division of that product, which is due to the fact that for a time the producers, especially Profits, have had a better share than usual. What causes this ever-recurring swing from Good Times to Bad? It is principally lack of organisation. There is NO organisation controlling Production, no one to say how much wheat or cotton the world will need next year, nor who is to set about growing it now. The employers for their own sakes do all they can to provide a sort of amateurish substitute, but we can see how inefficient it is by the fact that in this War every Government has had to try to improvise the organisation it had previously protested was unnecessary, unjustifiable, and impracticable. Of the Four Factors of Production no one has control of the whole. Each of them can veto the whole by withdrawing its own share in the work, but there is no one head over all. The employers have more power than any of the others, but even they have very little. They hold the throttle, but there is no brake on the tail of the train. I can remember railway trains in the early '70's, before the Westinghouse brake came in. They were loosely coupled together, and the hand-brakes in the engine and the brake-van were all they had. The result was that if a sudden stop had to be made, the shock given by the engine came rippling along the train. You could hear it coming, bump, bump, bumptity Bump, and then it died away again behind you. Nowadays the train is coupled up so tight that it is a unit, and the brakes are so good that the engine-driver has complete control. Modern Production is loosely coupled, and the engine-driver has little control. He can open the throttle and set the train going, but if it starts running downhill he cannot stop it without being run into by the rest of the train. Profits are the engine-driver, and there is a very long and very loose coupling between

The Production swing caused by lack of organization

Loose couplings

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them and the other Factors. Profits respond much quicker to any change in trade than do the other Factors. When trade improves slightly, it nearly all goes to Profits—at first. By and by the other Factors get a share, but at first Profits get it all. The result is that a very slight rise in prices gives a very great stimulus to Production, and a very slight fall is enough to cause a serious check. But we must remember that a rise in prices may mean a rise in profits due to increased demand, or it may spring from a rise in cost of production, which forces prices up without increasing profits at all. It is only when a rise in prices means an increase of Profits that it stimulates Production. Keeping that in mind, it is, I think, true that the pendulum-swing of modern Production is due to the fact that Profits hold the throttle, and that they are so sensitive to any change that they always go too far and cause a reaction. In steering you must learn to steer fine, and before you have brought her round quite far enough, “meet her with the wheel” to steady her. Now, in our present system, there is a lot of “back lash” and no possibility of steering fine.

and “back
lash.”

Our financial system, which makes gold the only legal tender, also produces “nerves” in the steersman, but we shall come to that in the chapter on Money.

Profits are the first to respond to any change in Business. Rent is the last. The effect of that is that when prices are rising the burden of Rent is mitigated. Everything sold to-day was made some time ago, when Rents were lower, so for the time being Rent forms a smaller part of the Cost of Production than usual. When prices are falling the reverse is the case. This is the second great cause of the Pendulum-swing, greater I think, though less noticed, than the similar pressure from behind, of Interest and Wages. Even if it is not greater in amount than the effect due to Wage-struggles, it is certainly longer in duration. Wages may “strike” against a fall, but the men soon come to the end of their resources. The Landlords can and

BOOM TIMES AND BAD TIMES.

do fight much longer, and this is the principal cause of the terrible duration of these periods of Dull Times, when everyone is heart-broken for want of work, and when it seems as if things would NEVER begin to move again. It has not attracted notice hitherto, because those who were studying the question were hypnotised by the dogma that "Rent does not enter into Cost of Production." All differences of Rent do affect Cost of Production, and whenever prices rise or fall, the burden of Rent alters very fast and to a very serious extent.

Rent sits on
the brake

Another thing that helps to cause the Deadlock known as Bad Times is that there is now a very great Surplus of Labour. The Efficiency of Production is now so great that we do not require all our men to produce the commodities we are in the habit of consuming. The War has proved that, by showing what we can produce when a very large proportion of our men is withdrawn from Production. In time of Peace, that Surplus Population is a menace to the interests of Labour. Every worker has to think of the chance of being "out of work," and the workers are constantly trying to reduce this danger, though some of their efforts, like the "ca canny" policy, do a great deal of harm to the community, and probably to themselves also. They feel their position insecure, and this makes them hard to manage, always afraid of being imposed on, "jumpy," and suspicious. The presence of this Surplus adds greatly to the power of the wealthy over the poor, and helps to explain the extraordinary difference between the conditions at the two ends of the social scale. Organised Labour frequently talks about the General Strike. Well, if by that they mean to stop Production by standing idle themselves, they cannot do it. Production is now so efficient and the Surplus Labour so abundant that it is very unlikely that the Trade Unions could do more than starve themselves. If the Trade Unions, having ordered a General Strike, attempt to prevent *anyone* from working, that is civil war, and is also likely to be easily defeated. The Surplus Labour and the great Efficiency of Production nowadays also help to cause the Pendulum-

The Surplus
of Labour

helps to cause
the Pendulum-
swing.

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swing. There is no doubt that useful work could be found for all and at all times, but not in an unlimited expansion of the same kind of work they are doing now. In Good Times, when all hands are at work and all the machinery going full time, there is much more produced of common commodities than is distributed by our present system. Under any Government which organised Production the amount of these to be produced would be controlled, and the Surplus Labour and machinery would be utilised in permanent improvements. For lack of that we now have in Good Times too much produced of the ordinary articles for which the demand is not elastic, and in Bad Times the stocks in hand have to be got rid of before Production can start again.

Production is now left to HAPPEN, with hardly any organisation. What would happen to an army that fought in that way? We know what would be the result, though we can hardly conceive what such an army would be like. Prince Charlie's Highlanders, who followed him to Derby, plundering all who came in their way, but fighting well, when they were not quarrelling among themselves, is about the last example we have. But they followed him only to Culloden, where their fighting and their quarrelling came to an end. When once we have organised Production, we shall look back on our present lack of system, as a soldier of to-day would look on the rabble that followed Prince Charlie.

To recapitulate, the Pendulum-swing of modern Production is due to lack of organisation, to loose connections and "back-lash" everywhere that make guiding and control impossible, to the varying burden of Rent, which presses lightly on a rising market and crushes a falling one, and to the Surplus of Labor, which as yet has not been recognised, much less made use of, so that instead of being a blessing it is a curse.

Might be a
blessing, but is
a curse.

Money is probably the loosest and vaguest of all the terms used in Economics, and that is saying a good deal. In ordinary use, Money embraces four ideas, Wealth, Capital, Currency, and Credit. When economists discuss Money they are seldom referring to Wealth, but they often speak of Money in such a way as to include sometimes one, sometimes more, of the three C's, Capital, Currency, and Credit. Still oftener, they prove a proposition, giving Money one meaning, and then build on that proposition, using Money in another of its meanings. Much of the confusion on the subject of Money springs from the looseness in the term.

The loosest
of terms.

Capital means the fruits of Labour saved and applied to Production.

The three C's

Cash or Currency I shall limit to Legal Tender.

Credit includes bank-notes, bills, cheques, and credit of all sorts—anything that can be used as a means of exchange, except legal tender or exchange by barter.

Let us try these definitions in actual use on the Quantity Theory of Money. Roughly, that theory is, that Prices depend on the Quantity of money in circulation. Now, if we substitute Currency or Legal Tender for Money and say that Prices depend on the quantity of Legal Tender in circulation, it is obviously untrue, for though, two or three times in the last century Prices did depend on Legal Tender, the result was that Prices vanished—all produce became unsaleable. In ordinary times then it is certainly not true to say that Prices depend on Legal Tender. If we bracket Currency and Credit and say that Prices depend on Currency and Credit in circulation, it is fairly true, but only as long as we keep the weight of the rule on the last phrase, in circulation. Not the money in existence, but the money in circulation, affects Prices and the circulation, that is the *rapidity* of the current is the vital factor. At the beginning of the War there were two or three

The Quantity
Theory of
money untrue.

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days of Panic when cheques, even bank drafts, were of little use. No one could sell anything. Prices had vanished. The amount of money in existence was exactly the same as before, but that had no effect. Well, as a matter of fact it NEVER has, but on that occasion the lightning-flash of War showed us what we can hardly see while the machinery is moving. Prices depend on the amount of Currency and Credit in circulation. That is true enough, but it means nothing, for in one night the amount in circulation may come to nothing if the shock is severe enough. The amount of Money in circulation ITSELF depends on what I have called the Credit of the Market. It will therefore simplify matters if we cut out that vague and slippery term and say that Prices depend on the Credit of the Market. The "quantity of Money in circulation" may mean anything. It generally means the demand for commodities at the time and that could exist without money at all if the State would keep books for us all, as the banks now do for so many of us.

The functions
of gold.

Let us now examine the functions of Gold. Gold is not at any time the Means of Exchange, but it is in ordinary times the Standard of Exchange, like the bubble in the spirit-level. The value of Gold is fairly steady, and as anyone can in ordinary times demand five sovereigns for every five pound note he has, that keeps banknotes at the same value as Gold. As long as that is so we are working on a Gold Standard without the trouble and expense of using Gold.

How does Gold affect Prices? I said that for Short periods, Values depend on the Credit of the Market, and for Long-periods on the Demands for Reward of all classes, the Bounty of Nature, and the Efficiency of Production: but for medium length periods it is very handy to say that Values depend on Cost of Production. It does not go so deep, but it is a very handy sounding-line for medium depths. Well, then let us use it. The value of Gold depends on Cost of Production. The value of any other commodity also depends on

MONEY.

Cost of Production. Therefore their relative values depend on their relative Costs of Production. If you now find out the weight of gold in a sovereign you can estimate the price of a ton of the commodity.

The Long-period Price of any weight of a commodity depends on the weight of a sovereign and on the Cost of Production of Gold compared with that of the commodity in question.

Prices of commodities move up and down *directly* in accordance with their Cost of Production, for their producers cannot keep on at a loss, but the Price of Gold never varies, it is merely another expression of its weight. If four sovereigns weighed one ounce then everyone could see that an ounce of gold was worth four sovereigns, but the fractions confuse many people. If the price of gold never varies, what happens when the value of gold changes? If the cost of production of gold rises, the gold-miners must get more for their gold or some of them would have to stop work. The same is true if there is a general rise in prices, so that the purchasing power of the sovereign is lowered. The gold-miners will get the same number of sovereigns for their work, but these will not go so far in buying tools, machinery, and explosives, and in paying wages. Some mines will find they are losing money and will have to "close down." With any other commodity, scarcity produces a rise in its price, but the price of gold is always the same. How, then, does a scarcity of gold produce the counteracting force that sets things right again. It acts through the Bank Rate. When gold is scarce there is a demand on the Bank for gold. Whoever has bank-notes *must* be supplied with gold. If he has Bank of England notes, the Bank itself must produce the gold. If the notes are on any other bank that bank must find the gold on pain of bankruptcy, and the Bank keeps the reserves of all the other banks. At the beginning of a period of scarcity of gold due to a rise in its cost of production or to a general rise in prices, all the banks find their reserves *gradually* decreas-

The Value of
Gold

is steadied
through the
Bank Rate

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ing. Supplies of new gold are diminishing, and all who want gold more and more go to the banks for it. The reserves begin to feel the strain, and yet the banks cannot refuse. They are bound by law to give gold for their notes "on demand," and regard for their own safety also compels them. The slightest hesitation would be fatal to them by increasing the demand. What can they do? The banks cannot refuse gold to their creditors, but they can "reduce their advances" to their debtors, and by doing this they check Business. This lowers prices generally, which, of course, is the same as raising the value of gold, and that was the point we wished to reach. Prices of commodities being lower again, the returns from gold-mining are better and the abandoned mines are reopened.

The changes in the value of gold through changes in cost of production are so slow that it is very difficult to trace them except in theory. There are other changes in the demand for gold which act more quickly. Let us see what would happen if England desired to gather a large sum in gold to increase the gold reserve, or to enlarge its gold currency? The Government having obtained the Capital (say fifty millions) by gathering it as taxes or from the investing public by a loan, would go to the Bank for the gold. It has not got the gold, so it must draw it from all parts of the world, and it has only one bait to offer. It would raise the Bank Rate. The first effect of this is to discourage enterprise and check Production, and thus lower Prices at Home. But if Business abroad is sound, Capital will rush in from abroad to take advantage of the high rate of interest offered in London. The usual way of remitting to London, say from New York, is to buy London bills. Now a bill on London is fundamentally* a paper which entitles someone to receive there the proceeds of a shipment of goods already on the way. As prices have

*Note.—Bankers' Bills of Exchange are founded on these commercial bills which represent goods. The banks buy these by discounting them, and so are able to sell "Exchange."

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dropped in London through the raising of the Bank Rate, the further shipping of goods there will be checked, and the result will be that bills will be scarce and in such demand that the Rate of Exchange will rise until those wishing to remit to London instead of buying bills will have to get gold and ship it. This is what the Bank needed. This goes on till the fifty million pounds' worth of gold reaches the Bank, and then the Bank Rate is lowered again. The unfortunate thing is that when the Bank finds that from any cause it needs gold, it can help itself in one way only, by raising the Bank Rate, and this always reacts on public confidence—the Credit of the Market, and this being a mental reaction there is no possibility of measuring or predicting its extent. A catastrophe may be started by a demand for gold, at first of very small extent. Let us examine what happens then. At the beginning of any period of prosperity every man of energy and ability tries to take advantage of the opportunity by extending his business. Their success raises fresh demands all round them, and also adds to the Credit of the Market. Others push in and repeat their success. "Buy any old thing" becomes the motto, and the greater the plunger the greater his success. This has two results, the younger and rasher plunge more wildly than ever, but the older men have seen the like before and they begin to call in their resources. The plungers begin to find themselves in difficulties. The smartest of them get out somehow, but the rest get caught. There is a failure or two, and then these seem to become epidemic. They must have money, so the banks raise the Rate. By this time good, sound businesses are beginning to be troubled by the difficulty of getting accommodation, and some of the banks are getting scared, and others are getting into difficulties themselves. After that anything may happen, and no man can foresee where it will stop, for the causes are almost entirely mental and act and react on one another in the most baffling manner. If it goes far enough, whispers get afloat about some of the banks, and then a demand for gold begins. Everyone begins to feel anxious

and the Rate
of Exchange.

Raising the
Rate may cause
a Financial
Crisis

or even a Panic

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Suspension of
Bank Charter
restores Credit

Panics bred
by Fear and
Insufficient
Legal Tender.

Paper-money
bound to come

about his own reserves in his own particular bank. Anyone who has money deposited is assured by his own bank manager that *his* bank has heaps of money on hand, but he also hears stories of friends who have tried to borrow from that bank and have been refused. Occasionally this has gone so far that the Gold Reserve has disappeared, and the Government of the day has had to intervene and suspend the Bank Charter Act, thereby allowing the Bank of England to issue Notes. Immediately this is done, the Credit of the Market is restored, and gold flows in again. No one wanted the gold for use. It was only fear made them demand it. Every man knew that he had to be ready to pay in gold all his obligations, and every man knew that it was impossible. There isn't the gold in existence. That is quite enough to explain Panic. If we knew that all ships were heavily "over-masted" so that a gale would endanger the best of them, and a hurricane would send the most of them to the bottom, we should all be nervous on board ship, and if we knew that there were not lifeboats for a quarter of the people aboard, the least sign of disaster would send half the passengers screaming for the boats. That is the way Panics are bred. Everybody knows that we may all be required to pay in gold, and most of us know that if that happens we won't be able to get it, for there isn't gold enough to do it. Well, if the release of a little paper money immediately quells the Panic, why not have a paper currency always? If Gold as our only Legal Tender means that in ordinary times we use Bank Notes, knowing that in time of storm we will have to be ready to pay gold, and that we won't be able to do so, why do we not use Paper Money all the time? History supplies the reason. In the past, paper currencies have been so common and have been so prone to lead to disaster that "plain business men" have developed the very deepest distrust of everything but Gold as the Legal Standard. And yet we are growing beyond it. In any great emergency Paper-money HAS to be used, and Paper-money, wisely used, saves us when an obstinate adherence to Gold would not

MONEY.

only ruin, but starve a large proportion of our people. In my last chapter I hope to be able to outline a scheme by which Paper-money, with its enormous advantages, could be made, not as safe as gold, but infinitely safer.

In the meantime we have seen that Panic is caused by our Gold Standard being in addition our only Legal Tender. There is not enough Gold in existence to meet this, so whenever we are compelled to use only the Legal Tender we are within an ace of Bankruptcy, and only the prompt adoption of Paper-money saves us from it. Every business man has seen or has read of these Panics, and this predisposes him to anxiety and "nerves." He feels that the ship beneath him is unsound, and is liable to disaster, no matter what his care and skill may be, and it is this feeling which exaggerates and intensifies the Pendulum Swing till the wave of Depression rises to the height of Panic.

Fear of Panic
helps to cause
Panic.

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PROFITS.

Chapter VI.

Analysis of Profits.

When the ordinary employer speaks of his Profits he generally means his net returns after paying all outgoings. He may own his factory, have a lot of money of his own "in the business," and work harder himself than any of his men, and yet class all his net income as Profit. Part of it is really Rent for the land his factory stands on. Then the building requires to be provided for. The rent of the factory building includes interest, sinking fund, insurance, and repairs. His machinery also demands interest, sinking fund, insurance, and repairs. The rest of his money which "keeps the business going" should pay interest and an allowance for risks run (including provision for Hard Times), which is really insurance. After that comes payment for the employer's work equal to what he would have had to pay a manager. What is left is true Profit, but how much is left? It is a point on which very little exact information is to be had. Many employers who are enjoying big incomes do not know how much of these is rent, interest, sinking fund, wages, and insurance for the risks they run, and even if they do know the amount of their true Profits that is a thing they generally keep to themselves. We do not know where the line of true Profits runs, but we do know that many employers are below that line, and make *no* real Profits. If they were to sell the business, invest the money, and take a billet they would be much better off, taking the average of years. They have really been living on Interest and Wages, and calling it Profit. Well, some people prefer to be poor as employers rather than comfortably off as employees, and when one has been a master it is often difficult to get employment. Of course, there are employers who make huge profits, but where do these come from. Let us examine the case I am most familiar with. Take A and B, two farmers on similar farms, but of very different ability. One works hard, but is a poor farmer, the other has perfect skill and judgment—is a born farmer. A

PROFITS

has a poor lambing, a light clip, a bad muster, few fats, a mob of culls to sell, and a lot of dying hoggets. He makes a bare living. B has a big lambing, a good clip, few missing, no deaths, and everything goes off fat. He is making a fortune. Is that at the expense of anyone? No, he *creates* so much more wealth than A. His workmen are better off than if they were working for A. London is the better for the surplus meat and wool he sends it, and Gisborne is richer by the money he spends there. He took his Profits from no one, but created them. Without his ability that extra wealth would not have existed, and in no way can it be taken from him without his consent. If the taxes or the claims of Labor (or of Rent or Interest) take from him more than he considers fair that surplus wealth will not be created. "The greatest benefactor of humanity is the man who makes two blades of grass grow where only one grew before," and the man who does so is entitled to the second blade for himself, if he cares to claim it. Some day we may get beyond that, and men may *work* for their country, as at present they are dying for it, but even when that time comes we shall have to remember our debt to the creators of the surplus, and if we accept their Profits reward them with Honour.

True Profits are the Surplus created by the Employer's Ability—the Rent of Superior Ability—and they obey all the laws of Rent. This analysis of Profits explains the failure of Co-operative Production. The organising of Production requires superior ability, and the Co-operators did not have this. Profits were not created: in most cases their management was so inefficient as to cause failure and liquidation. Co-operative selling associations have had better success, but that is because a Co-operative Society is free from one of the great difficulties of all retailers, how to obtain a large body of customers. The Co-operative Store has its customers bound to it, and they are of the best. Those who have joined it are the thriftiest of their class, and on a cash basis there are no bad debts.

True Profits
are the Surplus
created by the
Employer's
Ability.

Co-operative
Societies

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This is a great asset at the start of a Store, and by and by they pick out some of their members who learn enough to make the management passably efficient. It is from these men, trained in the management of their local Stores, that the Wholesale Co-operators draw the business ability they now possess. There is no short-cut to business success. A man must learn the business before he can manage it. This explains both the failures and the successes of Co-operation. The enthusiasm for Co-operation, common a generation ago, was due to ignorance of the true nature of Profits. Profits are not inherent in business, something lying round that any fool can pick up. They have to be created before they can be divided. The ordinary individual, hearing of big differences between wholesale and retail prices, speaks of the "big profits in that business," but let him enter the business and he finds that these are needed to pay the working-costs, and that here as elsewhere only the exceptional man can get more than the ordinary return for his money and his labor. If these facts were once accepted by the working classes it would lead to a very different temper among Labor leaders. At present they are steeped in the doctrines of Karl Marx, and are perfectly convinced that the employers take their profits from their employees. This doctrine causes most of the friction, ill-will, and suspicion between the two. It is really an explosive doctrine, more dangerous than dynamite. Anything that would destroy the Marxian theory and replace it by the other theory that Profits are created by Superior Ability would do a very great deal to render possible co-operation between masters and men. Once the men felt that the masters were engaged in a ceaseless struggle to increase the Efficiency of Production and that their employers' rewards came only from that increase in Efficiency which benefits the whole community, the present jealousy and hostility would be greatly alleviated.

Karl Marx
and Profits.

Effects of these
different theories
on trade
relations.

Here we have a striking proof that the foundations of Economics are mental and spiritual. Nothing at present could lead to a greater increase in the wealth of nations than an improvement in the rela-

PROFITS.

tions between employers and employed. We see here how different theories about Profits may embitter or sweeten these relations so vital to us all.

*Note.—It must always be remembered that there ARE Profits that are stolen — Plunder pure and simple. Business Power at its worst becomes a very dirty business. But we have been discussing the Profits created by Superior Ability engaged in Production, not the Plunder acquired by the Robber Barons of Business and Finance.

FOUNDATIONS OF ECONOMICS.

STILL DEEPER FOUNDATIONS. Chapter VII.

Recapitulation.

For the present I have finished my analysis of our present system; well, it is not a system, only "a way of living," to use a Scottish phrase, strongly tinged with contempt. Looking back, we see that the whole system is based on the Struggle for a Living, in which every class must fight for itself, and in which what one class gains another must lose. This Struggle always checks and sometimes throttles Production. This is one of the causes of that Pendulum-swing that is such a characteristic of modern Production.

The next cause is that, of the Four Factors of Production, Profits alone hold the throttle, and Profits are so sensitive to any improvement or check in Business that they always overshoot their mark and steer "very wild."

The next cause is the Surplus of Labour due to increased Efficiency of Production. This accentuates Labour troubles and makes Labour "touchy" and suspicious.

Our present Money is another cause for "nerves." Every business man keeps his "weather eye" on the financial barometer, looking for the first signs of Depression, for he knows too well how disastrous a storm may be and how little he can do if caught exposed to it.

Another cause of bitterness and ill-feeling is the Marxian doctrine that Labour produces everything, and that the employers STEAL their Profits. If we could replace this by the theory that Profits are the Rent of Ability, it would make a tremendous improvement in the relations between masters and men.

In all this I have tried to show that mental and spiritual causes underlie all the phenomena with which Economics deal. But in that I have not gone far enough. The essential foundation of Economics is a spiritual one—the idea that Selfish-

STILL DEEPER FOUNDATIONS.

ness is the ruling motive of mankind. Remove that king-pin and the whole science collapses. Economists have tried to refine this by substituting for Selfishness Enlightened Self-Interest. Now, there is no such thing as Enlightened Self-Interest. It is a term self-contradictory. Give a man sufficient Enlightenment and Self-Interest no longer touches him. He doesn't know and he doesn't care where Self-Interest lies. Duty calls him, and he can hear no other. IT IS NOT TRUE that Society is founded on Self-Interest. No Society ever lasted where Self-Interest was the ruling motive. Even the society of two, a man and his wife, cannot last if Self-Interest is supreme. Not even among the animals is Self-Interest able to bind two together. That miracle, for it was no less, was accomplished by Sex, the door through which Unselfishness and Co-operation first entered the world. The next great step was taken when dogs and wolves learned to hunt together. But before the wild dogs could hunt in packs, they had to learn to help one another in the killing and to treat one another fairly in the sharing of their prey. Mutual help was the bond. Selfishness would have burst up the pack.

Enlightened
Self-Interest a
self-contradictory
term.

Society held
together by
Virtue, and de-
stroyed by Sel-
fishness.

Since the time of Darwin we have all learnt that the different qualities of all living things are due to Evolution, the Survival of the Fittest, and the Elimination of the Unfit. But Evolution has been talked of as if it concerned the animal qualities, not the moral ones; for instance, the strength, courage, and speed of the wild dog and not his moral qualities, which in the wild state made co-operation possible in the pack, and which nowadays make the dog such an honest, affectionate, and faithful companion. Kipling gives a picture of the code of morals among wild animals. There is not the slightest doubt that there is such a code. You can see traces of it among tame dogs and sheep. A dog, for instance, will not hurt a pup, and among dogs the weaker sex is always treated with a considerable amount of respect, very like what we call chivalry among men. Sheep, too, have their rules.

The evolution
of the moral
qualities

Wild animals
have a code of
morals

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They have ways of fighting, either singly or in mobs, that are obviously handed down from the time when they lived in high rough country and were frequently attacked by dogs and wolves. They have also habits in grazing which seem to allow a prescriptive right to individuals over particular spots, so that a sheep that gets through the boundary - fence finds itself homeless among strangers. How were these codes evolved? It is

How were these evolved?

difficult to see how these moral qualities were an advantage to the individuals possessing them, but if you make the pack the unit the difficulty vanishes. It is obvious that they would be an enormous advantage to the community. The dog that was a fierce and staunch comrade in "the kill," not too greedy in the sharing of the prey, and not too quarrelsome at other times may seem to have been less likely to survive than the one who kept his own skin whole when opposed to a dangerous quarry and who plundered and bullied his mates whenever it was safe; but think of the pack and we see that

The efficiency of the pack due to the virtue of the dog

the canine virtues made the pack possible, and the greater the virtue the greater the success of the pack. A good dog might be at a disadvantage in a pack of curs, but a pack of good dogs could certainly hold their own against a larger number of greedy, selfish, and disloyal ones. How did the need of the community produce the virtue of the individual? The dog that was "a good mate" would get mates who would stick to him. The others would find difficulty in getting mates, and in this way they would either starve or learn to behave in such a way as to gain admission to the pack. Here we see, millions of years ago, the

The success of a community due to the virtue of its people

germ of an idea vital to all societies, but not yet recognised by any—that the virtue of individuals through it may not always help the individual is the secret of the life of the community. This accounts for the fact that virtue is admired even by those who do not practise it. The society then that can encourage virtue among its people will succeed while others fail. What we want is an Economics that will recognise the economic value to a

STILL DEEPER FOUNDATIONS

nation of the virtues of its people and build on that foundation instead of on selfishness.

Enlightened Self-Interest is one of these double-faced terms dear to Economists that can be proved in one sense and used in another. If you point out that men, even the worst of them, are constantly obeying other motives than selfish ones they qualify Enlightened Self-Interest by putting the emphasis on the Enlightened, and point out that an enlightened view of his own interests will make a man honest, because otherwise he will get into jail; kindly, because otherwise he will have no friends; brave, because a coward has to face such an ostracism that most men would rather face the enemy and so on through all the virtues. But the man who is only honest through fear of consequences is not honest, he is only politic, and the courage that faces danger for fear of the scorn and contempt given to cowardice is not true courage. True honesty would be honest even where roguery could be hidden for ever. True courage would face the devil, alone and in the dark. Enlightened Self-Interest cannot account for the virtues. At the best it can only provide a politic conformity with the code for the sake of its rewards and to escape its penalties. That is not virtue, but that is all that Self-Interest could ever produce. There is not the slightest doubt that there are honesty, courage, and patriotism that look for no reward. The War has shown us that they are plentiful beyond anything we had imagined. It is only by obstinately shutting our eyes to the facts around us that we can maintain that Self-Interest is the mainspring and driving force of Society. The Economists generally do this by widening the concept of Enlightened Self-Interest till it includes all the virtues, and then, of course, their theorem is true but meaningless; but as soon as they wish to build on their theorem they restrict the meaning of the term till it once more means Clever Selfishness, in which sense it is absolutely untrue. In one of his novels ("The War of the Worlds," I think) H. G. Wells tells of the invasion of the earth by the Martians. He imagines them as making an

Enlightened
Self-interest a
double-faced
term.

Can never
produce virtue,
only the form
of it.

H. G. Wells
Martians

STILL DEEPER FOUNDATIONS

immediate and easy conquest through their mastery over forces unknown to us. There is something scientific, methodical and inhuman about them that reminds me of our present conception of the scientific German. Now we can imagine these Martians analysing and dissecting everything and theorising about it. Let us imagine them finding everywhere the germs of putrefaction and coming to the conclusion that it was the key to this world and the secret of the life on it. That seems to me exactly what the Economists have done; they have isolated and cultivated the wrong principle, and while they thought they were studying the life of our civilization they were really cultivating and disseminating the principle that is responsible for its failures, and may yet be the cause of its decay.

Economists
partly respon-
sible for that
Selfishness.

The Society that Political Economy studied, really held together and produced safety for all and comfort for part of its population by virtue of the motives that Political Economy ignored—patriotism, the family affections, and the love of sound, honest work. But if Political Economy refused to see the forces that really held Society together, and completely failed to understand the Society it studied, its blindness may well be held responsible for many of the failures of our present civilisation. Its dogmas have chilled the hope and dulled the eyes of those who were looking for the true causes of the misery of our slum-dwellers. This must end. More and more our people drift into the towns. More and more do these towns become sinks, where all that is best dies and vanishes. It *must* end, for we cannot stand by and see our brothers degraded. It *must* end, for if we do not remove them, the slums will destroy us.

FOUNDATIONS OF ECONOMICS.

TWO LAWS OF NATURE.

Chapter VIII.

We are now living in a civilisation which is rapidly destroying itself in the great cities of which it is so proud. We have a science which blindly studies and falsely explains that civilisation to us, the causes of its successes and its failures. It teaches us that each man does his best for the community by looking after his own interests, and that the sorrow and suffering we see are due to Laws of Nature which cannot be avoided. Well, the first Law of Nature I know is that Selfishness is Damnable, and the second is that suffering is caused by Ignorance or Sin. Pain is not inflicted on us by a malevolent Devil. Pain is a warning, given to us by a Wise and Loving Father, to tell us that we are on the wrong road. It is like a thorn hedge set to keep us out of danger. Until recently all epidemics were regarded as being beyond our control. They had filled the world with suffering for countless centuries, but we have found that dirt and ignorance were at the root of them. We have now conquered some of these diseases, and we are resolutely facing the others, determined to solve their problems and to overcome them. That is the temper in which to face the problems of Economics. Wherever there is suffering WE are to blame. Let us find out OUR errors.

Selfishness is
Damnable.

Suffering is
caused by Ig-
norance or Sin

For untold ages mankind has advanced by stumbling and groping. It has been burning its fingers all the time, and learning from the pain. It has only just begun to open its eyes. Some problems it has solved to a very considerable extent. Others, that seem parallel problems, it has made very little progress in. It has learnt how to make war. It has not yet learnt how to organise in a similar way for peace. Its armies are organised, fed, and provided for, virtue is rewarded and promoted: self-interest is sternly repressed, esprit de corps encouraged, and all that system has grown in the course of thousands of years because no other could hold the field against it. The first fighting was done by small bands, who found their chances of success very much improved by anything that bound them together. In this way discipline grew, law and order within the unit gradually appeared. Selfish preservation of one's own life was found fatal to the common cause, also selfishness, cruelty, and arrogance on the part of the officers. Gradually we have learnt how to train an army, how to provide for it, how to treat it. Yet we have failed to notice that the problems of Production are very nearly identical. Our great Business organisers who have been called in to help to win the War have been telling us that the problems of supply, munitions, etc., they have had to solve in the War are much the same as they have been accustomed to handle in time of peace. Perhaps our great soldiers may make a similar discovery when they come back to the task of Reconstruction after the War. They may find that the experience gained in training and providing for, in paying, rewarding, and promoting our soldiers will be useful in the new world which we hope to see after the War. Just think what an army would be like, conducted by private enterprise, where everyone tried to follow self-interest, where the greediest and most skilful looters got promotion and where officers and men watched one another in a sour, sulky, suspicious temper, quite justified by the faults on both sides. On the other hand, think of what an industrial army might be like, if we could only copy the spirit of the fighting armies.

Two parallel
problems: War
and Work.

FOUNDATIONS OF ECONOMICS.

If Patriotism led each man to work for his country, and sound, honest, unselfish work were a sure road to promotion, if the officers felt that they were responsible for their men and the men that they were responsible to their officers, what a different world it would be. If the War should lead to that, then even this terrible War would not be too high a price for such an advance. What is to prevent us from doing it? The difficulties are entirely mental and spiritual. In the first place we should have to dismiss the old Political Economy with its Self-Interest and pursuit of Wealth, and preach a new faith and a new gospel in which Public Interest was the motive and Welfare the object to be attained. We CAN do it. The War has shown us that the world is full of heroes, who will face the most terrible deaths or the most horrible misery, monotony, and filth. When they come back we must try to get the same spirit into our work. It CAN be done if we have Faith. We have been comparing our War with the Germans to a Crusade. The term would be even more applicable after the War. We want another Crusade against our own Sin and Ignorance, for these are the causes of the appalling condition of a large part of our population. But before we can have a Crusade we must have a Faith strong enough to lift us over all difficulties. At present we have a Religion which preaches "Love your neighbours," and an Economics which teaches that "Enlightened Self-Interest" is the only motive in Business. Economics and Religion both profess to teach us how to live. Economics tells us how we get our bread and butter, and how our daily work affects our neighbors. Religion treats also of our daily life, what we ought to do, and what we must, at all costs, refuse; but we have managed to separate the two, so that in his daily life a man follows the teaching of Economics and "runs his business on business principles," while on Sundays he professes to believe that other principles are the only true rule of conduct. We have not reconciled these opposing principles; that is impossible, but we have managed to shut our eyes to their incompatibility, and by doing so we have

Wanted,
Crusade

But before
that Faith

CHAPTER IX.

blinded ourselves. If we would see the truth, we must be willing to follow it, no matter what the consequences may be. Whoever is not determined to do this, gradually loses the power to recognise what is true and honest. Faith and Works are so bound together that if Faith fails to produce Works, Faith itself dies. We are arriving at that point. The leaders of Economics have condoned and excused as inevitable the misery and waste of our city-life. The priests have remained passively neutral, conveniently blind to troublesome questions and drugging their consciences by fussy Red Cross work for the benefit of the fallen. Our Economics is founded on falsehood, and our Religions have agreed to ignore the point and "let sleeping dogs lie." When Religion is alive it must concern itself with *all* that a man does. The Religion that hopes to keep a hold of its people on Sundays while it allows Economics to frame another code for weekdays is dying. Where they overlap, Religion and Economics must be identical, or one will conquer and replace the other, and the side that remains passive under attack is already beaten. That is what is happening. Business run on Business Principles accounts for our empty churches. By and by it will have deserted cities to answer for. If our Faith does not inspire our daily life then our Faith is dying, and our civilisation is doomed.

Faith and
Works

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ATTEMPTS AT SYNTHESIS.

Chapter X.

Analysis always leads to Synthesis. Having diagnosed the symptoms the next thing is to attempt to prescribe for the disease..

THE LAND.

The first thing to tackle is the Land Question. In "Progress and Poverty" Henry George maintains that Rent tends to absorb everything beyond what is needed to provide a living for the average man (of course the man of superior ability makes more, but that is his Rent of Ability). Ricardo's theory of Rent is really the same. All the Surplus above what is produced on "the Margin of Cultivation" forms Rent. Then no one (of average ability) can anywhere obtain better returns than if he were "on the margin of cultivation," and where that "margin" is low, as it is in all old countries, the average reward of industry will be low, and the bulk of the produce of the people will go as Rent to Landlords. There seems to be very little reason for paying this tribute to the Landlords, for tribute it is. When you take away the payments for buildings and other improvements for organisation and supervision and thus strip Economic Rent bare of everything else, you leave a payment which is a tax on the community and nothing else. There is only one reason that might make us hesitate to disturb too suddenly the existing order of things. That is, that the administration of the National Estate would require very great wisdom and efficiency, possibly more than we have been able to select and train, up to the present. Henry George's remedy was to sweep away all the present taxes and replace them by a Single-tax, which would place all the burden on Rent. There are two answers to this. The first is that Rent already pays all the taxes. If Henry George is right, and Rent leaves only a bare living for the producers, put all the taxes on the producers and the rents will fall; put them all on the landlords and the rents will rise. If Rent depends on the

ATTEMPTS AT SYNTHESIS

Margin of Cultivation, the same is true. If the landlords pay the taxes the tenants will be able to live on land so poor that it would not pay to cultivate it if the tenants paid the taxes. The Margin of Cultivation will fall and Rent will rise. If Rent depends on the Demand for Reward, the Reward to the Producer is the net Reward. It matters nothing to him whether he pays £100 as rent, or £90 as rent and £10 as taxes. If the Landlords pay the taxes, the gross Rent paid by the tenants will be so much the larger. The net Rent received by the Landlords will be the same in both cases. Let anyone try it. Take two shops of the same letting-value and let one of them, tenant to pay all taxes, and the other, landlord to pay taxes. The rents will differ by the amount of the taxes, and the net return to the landlord will be the same from the two shops. Whether the taxes are paid by landlord or tenant they come out of Rent. The second objection to the Single Tax is that it would be passed on to the tenant. As soon as all the present taxes were lifted from the Producers and the Single Tax imposed on the Landlords, Rent would rise, that is the nominal Rent paid by the tenants. The gross outgoings of the tenants and the net income of the landlords would be unaltered by the change. Rent already pays Taxes, so the Single Tax is unnecessary and useless. The only solution of the Land Question is to buy back the land from the landlords, and for that I propose to raise the money by a small Land Tax (say $\frac{1}{2}$ per cent.), which I shall call the Redemption Tax. Let each landowner value his own land and let the Government use the proceeds of the tax to buy the land that seems cheapest, giving perhaps 10 per cent. above the *Owner's* valuation as compensation for disturbance. This would gradually redeem the land for the State. The gradual nature of the process is essential. If we had all the land redeemed to-morrow we should find it very difficult to handle it. New Zealand had the beginnings of a leasehold system and has lost it. But by making the Redemption Tax a very small one we give ourselves time to acquire the necessary skill and ex-

Single Tax
could be "pass-
ed on."

The Redemp-
tion Tax

must be slow

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perience before the National Estate becomes very large. Another reason why it must be a slow process is that with a National Estate instead of a National Debt it would be much harder for the people to retain control of the Government. The power of the purse has been one of the safe-guards of freedom, and the detonating-charge of revolutions has frequently come from the bankruptcy of the Government. Before we can trust our executive with a national estate we must learn to control it better.

CURRENCY.

Gold the Standard of Value, not the means of Exchange.

The next thing to be done is to improve our Currency. Before the War, Credit was the usual means of exchange, but Gold was the Standard, and was also the only Legal Tender. There is not enough gold to act as the means of exchange, so that whenever business had to be carried on, entirely on a gold basis, the result was immediate collapse of everything. During the War we seem to have carried on with Paper-money based on Public Credit, and yet kept on a par with Gold by the wisdom with which it has been handled. The history of Paper-money shows many failures and few successes. Even our present success seems to have been brought about by the care and skill of those administering it. No laws are yet recognised showing possible dangers and how to avoid them. The only attempt at that is the Quantity Theory of Money, which, used as it is at present, I hold to be false. And yet I maintain that a Paper-money *can* be obtained, subject to laws and absolutely outside the control of Government. We could have a Paper Currency based on Index Numbers which would be perfectly safe as a means of exchange and much more reliable as a standard of value than any metallic currency has ever been. The Paper-money would be issued by the State to the National Bank (which could quite well be the Bank of England) in redemption of the present War Currency. Every year the Index Numbers would be ascertained by

Paper-money based on Index Numbers would be safe

ATTEMPTS AT SYNTHESIS.

a Court of Enquiry in the same way as certain prices are ascertained by the Fairs' Courts of Scotland at present. If the Index Numbers showed that prices had fallen, the Treasury would be allowed to issue more Paper-money to the National Bank. The Treasury would be in funds, and could reduce taxes or set about public works that had been held up for this opportunity. When prices rose the Treasury would have to call in some Paper-money. This it would do by impounding some of the notes presented to it in payment of taxes, etc. and storing them instead of re-issuing them. The Treasury would then be short of cash, and would have to raise the taxes or reduce its expenditure. In these ways the Paper-money would be kept free from any long-period variations, and subject only to the temporary alterations due to fluctuations in the Credit of the Market. The terrible fall in prices due to Panic would be almost entirely eliminated, for the worst of that is due to the inadequacy of our Legal Tender. A Paper Currency regulated automatically by the Index Numbers would be of great value as a reservoir of capital for the needs of the Public Works Department. It would store up capital when prices were high, and check them from going higher. When prices fell below normal it would pay out capital and prevent prices from going lower. It would act as a great fly-wheel keeping the machinery running smoothly and preventing a great deal of that Pendulum-swing which is so regular in its recurrence and so disastrous in its effects. It would be specially beneficial in its effects on Government finance, for it would provide the Government with capital when Times were Hard, and enable them to build their public works when labor and materials were both at their lowest. It might be that in Good Times the demand for State Paper would be so small as to make the volume so low that it could not be easily regulated. If that should be so we could ensure the volume of the stream by making a law that all taxes had to be paid in State Paper. If more were needed we could raise the stamp-duty on cheques so as to discourage the use of them for small sums, but I do not think that would be needed.

would reduce
the Pendulum
swing

FOUNDATIONS OF ECONOMICS.

and provide a
perfect stand-
ard of value.

Here then is a Currency absolutely safe from any interference by the Government, for it would be regulated by the flow of the markets as registered by the decision of a Court provided for that purpose. For long periods it would be a perfect Standard of Value, and it would do a very great deal to prevent Financial Panics. It would also act as a reservoir of capital* for the Government, carrying over the abundance of Good Years to help the Lean Years that would follow, and steadying the extremes of both.

*Note.—Although I have said that State Paper would furnish a reserve of *Capital* for the use of the Government, it would not be accurate to say that the *Community* had stored up Capital. From that point I should say that the people had paid heavier taxes when prices were high and everyone could bear the burden in order to be able to have heavy Government spending and light taxation when prices were low. Of all the wealth created in one year very little can be kept till the next one. What would happen would be that the Government's share of that wealth, the taxes, would be very large in the Good Years, and very small in the Poor Years. Relative to the *Community*, that is not the storing of Capital, it is the unequal use of the Government's taxing powers. It is the right to tax that is hoarded.

ATTEMPTS AT SYNTHESIS.

PUBLIC HONOURS.

At present if a man wishes "to get on," the surest way is to make money. The rich man gets not only material comfort for himself, and a better chance of success for any family he may have, but most of the honours the State has to give are more readily reached by the rich man than the poor, and neither the public nor the State scrutinises too keenly the means by which the wealth was obtained. It is often said that if a man has plenty of money and has sense enough to keep from making himself too obtrusive, even the House of Lords is not out of his reach. That may be an exaggeration, but we *do* know that there are occasionally debates in Parliament as to the extent to which rewards are given for "contributions to party funds." Taking our population as a whole, the success or failure of their life's work is gauged by "What has he made?" Not one per cent. will be valued by their "position," nearly all by the money they have got. Now we could do a great deal to raise the standard of our whole people if public service of any kind carried some visible reward. It need not be costly. A little salt cellar or cream jug inscribed with the name, the date, and the office filled, would be valued by the right kind of man. If a Parish Councillor who had served one term, received the salt cellar, and the cream jug for a second term, many people to whom at present money seems the only criterion of success, would begin to feel that public service was an honour, instead of being simply a silly way of wasting one's time, as they too often think now. The Town Councillor or County Councillor could get a tea pot for his first term and a coffee pot for his second. They would be well spent. I believe that even the slightest recognition of their services would be greatly valued, and it would have a great effect in drawing good men into local politics, and in raising the esteem they received from the public. This would have a cumulative effect, for every good man, who gets in raises the standard of the local body he sits on, makes it more distasteful to the rogues

Make money.

Decorations
for Public Ser-
vice.

FOUNDATIONS OF ECONOMICS.

and makes it more of an honour to get elected. The same idea could be carried right through all our public services, so that every man who had filled any public position would have something to show for it. What form the reward takes is immaterial. In our present society the love of money is the root of many evils, and this seems one way in which we might encourage the love of honour.

**Discourage-
ment of Lux-
ury.** Another way in which we might lessen the drawing-power of money would be the Discouragement of Luxury. This is getting more and more necessary. The successful man is generally pretty shrewd, but his wife is not always the same. She pushes him into extravagant society where she can show how much money he has made. Each fool tries to outdo the other in silly display, and meantime waste at the one end of society breeds want at the other. A good deal might be done by putting heavy taxes on all luxuries,—furs, fine motor cars, and diamonds for instance. Much more could be done by increasing the Death Duties, especially the Graduated Duties.

**Thrift versus
Waste.** This raises the questions of Thrift versus Waste (for there are two questions). Is the thrifty man an addition to the strength of the nation, and what would happen if everyone were thrifty? There is no doubt that the man who saves and uses his savings as Capital in further Production, adds to the efficiency of the nation just as he would have done if he had discovered a new source of petroleum. That petroleum may afterwards be used for producing benzine to drive luxurious and extravagant motor cars, or to drive fighting aeroplanes to win the War, or postal aeroplanes which will knit civilisation closer. The use of it will depend on the wisdom of the nation, but there is no doubt the discovery will add to our power. Capital is the same. It may be used either ill or wisely, but it gives power either for evil or for good, and as it cannot be obtained without saving, I contend that the thrift of the individual helps not only himself, but the community. A Socialist State would find that out. It could seize my Capital, but could it

**Effects of
Thrift.**

ATTEMPTS AT SYNTHESIS.

repeat the thrift by which I accumulated it? National Debts are common, but could a State save and provide for the future? So far, we see many States reckless, improvident, and extravagant, and very few that show the beginning of a capacity for thrift. Till that is altered, individual thrift is the only way of acquiring Capital, so necessary and so valuable to the community. The next question is what would be the result if *everyone* were perfectly thrifty? Would the *unlimited* growth of Capital be beneficial to the nation? I think it would. It would add to the Efficiency of Production. More could be produced with less labour. Machinery would take the place of men. Water-power would take the place of coal, and coal-miners would be unnecessary. Electric power abundant everywhere would free us from much of the petty drudgery of house-keeping. In endless ways we could, with abundant Capital, save labour from much avoidable work on which it is now wasted, and set it free to capture and harness still further the forces of Nature, and compel them to work for us. But what about Over-production? If our present Capital and Labour are frequently blocked by a glut, what would be the result if Capital increased so much that it reduced still further the amount of Labour required, and so we found ourselves with a great surplus of both Capital and Labour? Even now, our manufacturers cry, "Only give us Markets," and much of the World-Politics of the past forty years is due to the desire for "Markets" to absorb the surplus that our manufacturers could not sell at home. My answer is that there never has been Over-production — never enough produced to keep all our population in comfort, and that what we call Over-production is simply a Deadlock caused by Rent and Wages overtaking Profits, so that it no longer *pays* to produce. I remember seeing a bicycle bump into a tree with such force that the frame was bent and the back wheel rubbed against the front one. Neither wheel could move and the bicycle was useless. Over-production is that, and nothing more. The back wheels are rubbing against the front ones, and none of them can go

Only give us
"Markets."

FOUNDATIONS OF ECONOMICS.

Even unlimited Markets? business.

round. *Unlimited Markets* would not prevent that happening. At the beginning of the War, the Market WAS practically unlimited. There was a demand at high prices, and with prices always rising, for far more than the world could produce of everything needed in the War. What would have been the result if Business had been left to take its usual course? Profits would have risen and everyone would have rushed to produce what was demanded by the belligerents, then Wages would have risen, and Interest and Rent would have followed. No matter how wide the Market is, nor how high the Prices are, there is a tendency for Wages, Interest, and Rents to overtake Profits, and when that happens Profits are reduced, and the employers, finding that "Business is not paying," have to restrict Production. That was prevented by the interference of all the belligerent Governments. The need was so great that no economic dogmas, however sacred, were allowed to stand in the way. How they did it, they have not told us, but it is evident that they have unconsciously solved some of the problems of Production and provided it with some sort of organisation sufficient to prevent that Deadlock which otherwise would have tied up everything long before this. Well, if it can be done in a hurry in War-time, we want to study it and see if we cannot learn how to do it in time of Peace. There are many things being done in this War that we must study. The raising and training of Kitchener's first armies was a wonderful achievement. Let us study that and try to understand it, for we have similar problems before us. Some day we shall set out to enlist and organise a Working Army, and we shall blunder and stumble and grope, as if the thing had never been done before. It has, and under severer conditions. The change from city life to the trenches was greater than will be any possible step from modern Business to Organised Production. Perhaps that was the reason our boys faced it so well. Life in the muddy trenches of Flanders would have been intolerable had it not been for the chance of dying for one's country. That's what kept them alive.

Organization of Production evidently improvised at the beginning of the War.

Study the Army

ATTEMPTS AT SYNTHESIS

The need was so great that our men rose to a higher plane, and met it. Could we not do the same, at the institution of our Working Army—away with half-measures, and boldly ask every man to work for his country as soldiers fight for it? That depends on our Faith.

THE METHOD OF TRIAL AND ERROR.

The other alternative is that of continual experiment, "Trial and Error." Keep on trying, and wherever a little success shows, follow it up. We could encourage State Enterprise, Municipal and Local also. The towns could have their tramways, the counties their light railways, and the State the main lines. Each would be compelled to keep its accounts in the same form, and the Audit Department would check them all. If Glasgow makes a success of its trams, let Glasgow flourish; others will copy it. The failures would die out. Competition is necessary for progress, and Socialism must be made big enough and wide enough to leave room for Competition. We must have city striving against city and counties and provinces in constant emulation. Great companies should also be encouraged, provided they treat their men and their competitors fairly and keep their accounts open to public audit, like their competitors. Each would add to the efficiency of all, as the wolf produced the swiftness and the beauty of the horse. There is little doubt that for the needs of to-day this multiplication of competing enterprises is to a certain extent wasteful, but can the efficiency of to-morrow be provided for in any other way? One single great Socialist State would be very apt to become a hide-bound bureaucracy. It would strangle in red-tape. Even if the bureaucracy became highly efficient, there is another problem, how to retain the freedom of the individual under such a powerful executive? Before we can attempt to reduce Competition, we must have much greater efficiency in our Government and in ourselves. We must have learnt how

Competitive
Socialism.

Competition
necessary

to gain Eff-
ciency

and Freedom

FOUNDATIONS OF ECONOMICS.

to pick our best men and promote them, how to watch them and encourage them, and also how to prevent them from over-shadowing the private life of the common people.*

But we cannot sit still. Civilisation is decaying in our cities. Judging them by the children brought up in them, they cannot last as they are. What can be done depends on our Wisdom and Courage, and these ultimately depend on our Faith; but honest effort to help will strengthen both Wisdom and Courage, and a new Faith will open before us if we fight on.

“Let us, then, be up and doing,
With a heart for any Fate,
Still achieving, still pursuing;
Learn to labour and to wait.”

*Note.—That is the great problem of Socialism, how to select, train, and reward our best men. It is difficult, very difficult; but, on the other hand, the problem of Individualism is **UNSOLUBLE**. All societies, even the most primitive, are founded on and held together by mutual help, and they perish if selfishness becomes too common. Individualism preaches selfishness, and encourages it by rewarding and promoting the selfish. It **BREEDS** selfishness. That is the root of the trouble. Individualism tries to build society on Selfishness, and that cannot be done.

FAREWELL.

Now that I have finished, I look back on what I have written, and I am impressed with the risk I am taking. Alone, unknown and inexperienced, I have challenged the champions of Economics. It is most improbable that a sheepfarmer from the backblocks can bring much of any value on such an abstruse subject, and I know what the consequences of failure will be. But the penalty is great in anything that is worth doing. The riddle of the Sphinx always meant death to those who failed. Be it so. I face it.

Though my building may be demolished, it may be that some of the stones I have squared will be useful to others. That will be enough for me.

THOS. TODD.

23rd August, 1918.

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economics

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